

Federal Block Grants: Synopsis of Research

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Table of Contents

Synopsis of Research	1
Federal Outlays for Aid to State and Local Governments	3
Distribution of Local CDBG Funds 1976-1993	4
Recommended Reading	5
Expert Contacts	7

Synopsis of Research

Block grants constitute an intermediate method of federal assistance between categorical grants and revenue sharing. They are less restrictive and more flexible than categorical grants, but are less flexible and more restrictive than revenue sharing. There are no simple generalizations to be made about "block grants" because the administrative structures and statutory provisions governing these programs have varied considerably over time and by program type. Some grants flow directly from the federal government to local government while others flow through state government to local governments, agencies, and contractors. Conditions, or "strings," attached to funding differ significantly from one program to another depending on its national objectives and provisions for local discretion. For example, a large number of sites might be eligible for block grant funded water and sewer projects, but local officials decide which projects will be funded and which will not. Some restrictions safeguard citizen participation and official accountability. Other restrictions define the range of possible options, but do not mandate particular choices.

Given the complexity of block grant programs, it is essential for policymakers to give considerable study to how earlier programs have worked. Fortunately, there is a large body of research on this topic. An annotated list of recommended reading is attached, as well as a list of experts with in-depth knowledge of these matters. They have agreed to provide additional details as needed. A broad summary of the findings in this area of research is reported below:

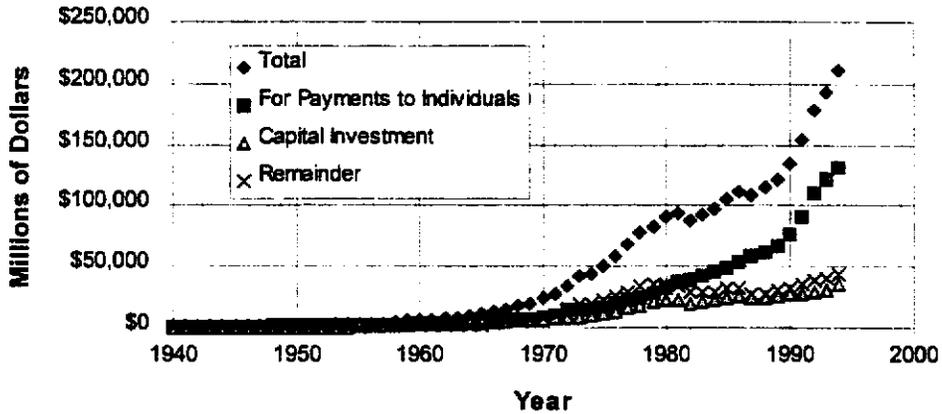
- **According to the U.S. General Accounting Office (GAO), there are over 600 widely varied federal grant programs.** Federal grants account for a total of \$211 billion (FY 1993) to state and local governments, but "block grants" are only a subset of these funds. Between 1960 and 1993, federal grants accounted for over 20 percent of state and local capital spending. In 1980, grants accounted for 37 percent, but declined to only 22 percent in 1993. Presently, two-thirds of federal grants to states are allocated through the U.S. Department of Health and Human Services. The Department of Housing and Urban Development's Community Development Block Grants (CDBG), accounts for one-third of federal assistance to cities.
- **Statutes and the administrative interpretation of federal statutes vary from one presidential administration to another.** This may have an effect the distribution of money among recipients (see page 4). There appears to have been a significant difference between the Reagan and Carter administrations in the interpretation of the law requiring that at least 51 percent of jobs created or retained go to low- to moderate-income people. Under the Reagan administration, HUD Assistant Secretary Stephen Bollinger told a House Subcommittee that, "as an administration we look to the Congress, and certainly we see nothing in the statute that sets any threshold for benefiting low- and moderate-income people *on an annual basis.*"
- **Studies evaluating the performance of block grant programs are plagued with inadequate data and frequent discontinuities in the method of calculating benefits.** This complaint is reiterated countless times in both governmental and academic evaluations of block grant programs. HUD's criteria for calculating benefits for low-income people and for monitoring programs have been inconsistent. The GAO (1994) found inconsistent adherence to the CDBG requirement that 51 percent of the jobs created go to low- to moderate-income people. HUD's

statistics vary from 40 percent to 90 percent, depending on the method used (see Rich 1993:304). Regardless of source, estimates are extremely difficult to verify.

- **Contrary to conventional wisdom, there is strong evidence that regulatory “red tape” is as prevalent, or even more prevalent, at the state and local levels as it is at the federal level.** Many of the regulations on the use of block grants are not federally mandated, but are promulgated by state and local officials. Examples include additional contract terms, statistical and financial reporting requirements, state and local environmental regulations, building codes, and zoning ordinances (see Givel 1991). These obstacles may reduce funding in some areas.
- **Federal grants-in-aid to the states are “leaky buckets” with respect to providing assistance to the poor; funds intended for developing opportunities for the disadvantaged often subsidize thriving industries and high-income neighborhoods.** Studies cited by Rich (1993), found that 16 percent of CDBG funds went to high-income neighborhoods, while only 15 percent went to low-income neighborhoods. Local priorities, as defined by local political elites, may not correspond with national objectives and may affect targeting. According to a report by the GAO (1990), federal aid reduced disparities among communities more than state aid because it tended to be more targeted than state aid. Geographically, state and local governments disperse funds more broadly and evenly than federal programs do, which does little to remedy disparities. The GAO (1994) reports that communities allocated 84 percent of their economic development funds (FY1993) for assistance to for-profit businesses; states allocated 70 percent. Assistance to low-income people “trickles down” through government agencies and private-sector beneficiaries.
- **State and local governments do not fully replace funds provided by federal block grants when federal funding declines—and federal grants-in-aid to state and local governments are more vulnerable to reductions than many other kinds of federal spending.** Givel (1991) found that replacement spending in the states did not depend on their tax capacity or assessments of need, but on state politics. Many studies have found that grant funding is particularly “soft” money, relative to “entitlement” spending or defense spending. Among grants, economic development funds have been relatively more stable than grants to states for payments to individuals, which have been climbing as a percentage of federal outlays. At the federal level, discretionary domestic spending fluctuates according to shifts in congressional politics and is sensitive to cross-pressures for other kinds of spending when budgets are tight.
- **Research findings indicate that, at their best, block grants have provided state and local government with the resources and discretion for improving economic opportunities among poorer citizens. At their worst, block grants provide a federally subsidized pork-barrel fund for wealthy, well-organized, local elites.** Statutory details matter. Most studies focusing on the local allocation of block grants have found that local officials are more likely to pursue funding for projects favored by politically active constituents, not necessarily the poor themselves. The realities of state and local politics may help explain many of the holes in the “leaky bucket” of federal assistance programs originally designed to reduce poverty.

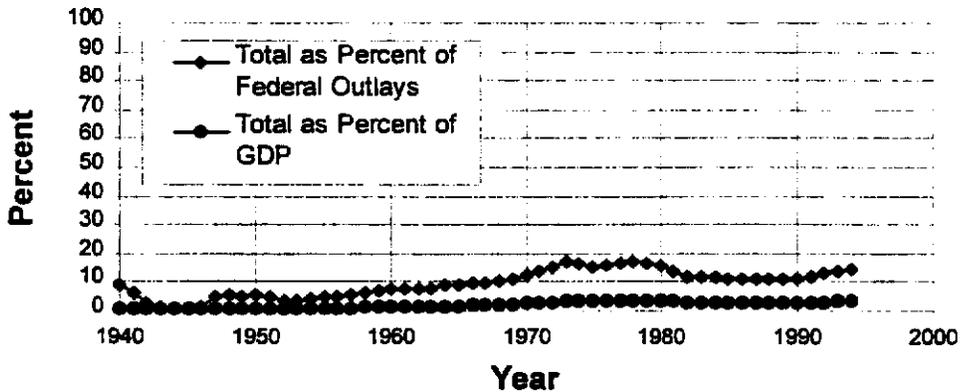
Federal Outlays to State and Local Governments

Federal Outlays to State and Local Government



Note: Total outlays include off-budget outlays; however, all grant outlays are from on-budget accounts. Grants that are both payments for individuals and capital investment are shown under capital investment.
 Source: Department of Commerce, On-line Budget Information, STAT-USA.

Federal Outlays to State and Local Governments (in percentages)



Source: Department of Commerce, On-line Budget Information, STAT-USA.

Distribution of Local CDBG Funds

Percentage of CDBG Funds Allocated to Local Jurisdictions by Urban Conditions Index Quintiles 1975-1989*

Quintiles Calculated Each Year

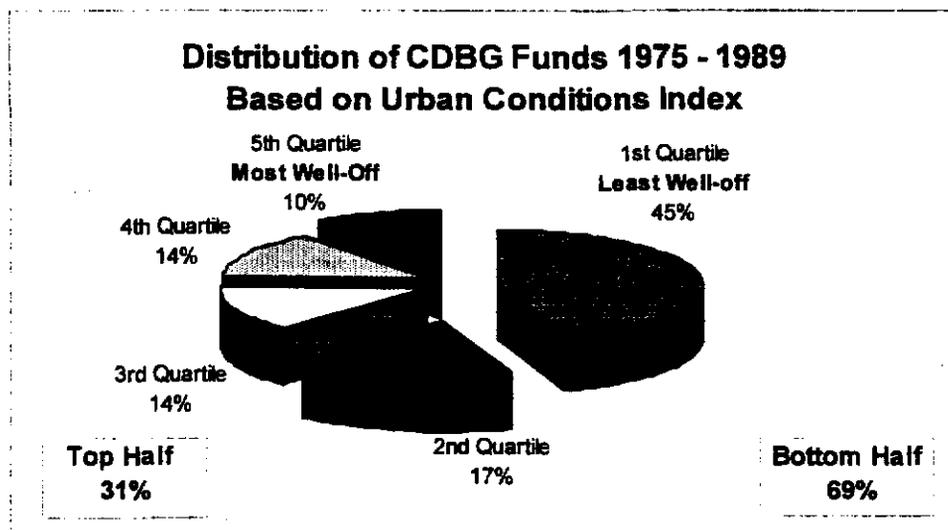
Quintiles Based on 1989
Funding Distributions**

Year	Places Funded	1st (Low)	2nd	3rd	4th	5th (High)	Top 50%†	1st (Low)	2nd	3rd	4th	5th (High)	Top 50%†
1975	651	45.0	23.9	14.0	10.9	6.1	24.0	55.5	18.6	12.8	8.8	4.4	19.6
1976	655	43.5	20.2	14.8	12.8	8.8	29.0	50.5	18.2	13.8	11.2	6.3	24.4
1977	669	40.6	18.2	15.7	14.8	10.6	33.3	45.4	18.2	14.6	13.8	8.0	29.1
1978	682	45.2	16.6	14.3	14.3	9.5	31.0	49.1	16.8	13.5	13.0	7.6	27.4
1979	688	45.4	15.9	14.2	14.7	9.8	31.6	48.8	16.6	13.4	13.4	7.8	27.9
1980	654	45.5	16.6	14.6	14.1	9.2	30.6	48.7	16.4	13.3	13.7	7.9	28.3
1981	665	45.4	16.6	14.7	14.2	9.1	30.7	48.5	16.3	13.4	13.9	7.9	28.5
1982	726	44.7	16.2	14.9	14.6	9.6	31.7	47.5	16.4	13.5	14.3	8.3	29.4
1982	734	46.0	16.2	12.0	14.4	11.4	31.8	46.9	16.1	13.2	14.7	9.1	30.4
1984	795	44.9	16.4	12.3	14.5	11.8	32.5	45.3	16.5	13.6	15.1	9.5	31.4
1985	814	44.8	16.3	12.4	14.7	11.8	32.7	45.0	16.6	13.7	15.0	9.6	31.5
1986	827	44.5	16.4	12.9	14.2	12.1	32.8	44.6	16.5	13.8	15.0	10.1	32.0
1987	827	44.5	16.4	12.9	14.1	12.1	32.7	44.6	16.5	13.8	14.9	10.1	31.9
1988	857	44.6	16.5	13.6	14.7	10.7	32.2	44.0	16.6	14.1	15.1	10.3	32.5
1989	858	44.5	16.5	13.6	14.7	10.6	32.1	43.9	16.6	14.2	15.1	10.2	32.4
Avg.	740	44.6	17.2	13.8	14.1	10.2	31.2	47.2	16.9	13.6	13.8	8.5	29.1

* Adapted from Rich (1993:354). The urban conditions index is a composite measure based on the percentage of population change, percentage of poverty, and percentage of pre-1940 housing units (see Rich 1993:356-58).

** Includes three communities that received funding in previous years, but not in 1989 (N=861). See Rich (1993: 354) for details concerning the use of "1989 funding," which controls for migrations of jurisdictions into other quintiles over time.

† Approximation based on 1/2 of third quartile.



Recommended Reading

General Accounting Office. *Community Development Block Grant Economic Development Activities Reflect Local Priorities: Report to Congressional Committees*. Washington, D.C.: Government Printing Office, 1994.

Findings indicate that local communities did not consistently follow the statutory requirement that 51 percent of the jobs created or retained in CDBG grant projects go to low to moderate-income people. The report provides an analysis of CDBG requirements and the present status of local compliance. It calls for better performance reporting from HUD.

General Accounting Office. *Community Development HUD Oversight of the Dallas Block Grant Program Needs Improvement: Report to Congressional Requesters*. Washington, D.C.: Government Printing Office, 1991.

This is a classic GAO report. Poor monitoring on the part of HUD's regional office resulted in the misappropriation of grant funds to pay the entire salary for some building inspectors for the City of Dallas, even though they did not work full-time on HUD inspections. The report cites lax monitoring on the part of HUD, but also notes that local officials failed to meet generally accepted standards of accounting and documentation. Another report documents HUD's effort to enforce standards of accountability in its monitoring. (See also, General Accounting Office. *Community Development: HUD's Decision to Restrict Philadelphia's Block Grant Funds: Fact Sheet for the Honorable John Heinz and the Honorable Arlen Specter, United States Senate*. Washington, D.C.: Government Printing Office, 1986.) Attempts to enforce basic standards of accountability often produce complaints of too much "red tape." Together, these publications illustrate the fine line between accountability and local discretion.

General Accounting Office. *Federal Aid: Programs Available to State and Local Governments*. Washington, D.C.: Government Printing Office, 1991.

This report lists each of the 606 federal aid programs available, FY1990 funding level, eligibility, and federal budget codes. Analytical tables provide departmental and functional details.

General Accounting Office. *Federal-State-Local Relations: Trends of the Past Decade and Emerging Issues*. Washington, D.C.: Government Printing Office, 1990; and *Communities in Fiscal Distress: State Grant Targeting Provides Limited Help*. Washington, D.C. Government Printing Office, 1990.

These reports provide an excellent overview of the fiscal relationships among levels of government. Highlights include an analysis of the impact of federal budget trends on state and local fiscal disparities. One of the GAO's major findings of both reports is that federal aid is more effective at reducing disparities among communities than state aid.

Gilbert, Neil and Barbara Gilbert. *The Enabling State: Modern Welfare Capitalism in America*. Oxford: Oxford University Press, 1989.

This is a good place to start reading about the overall structure of federal assistance. A myriad of federal programs are described including many block grant programs as well as categorical grants and revenue sharing schemes. It is not restricted to subsidies to the poor, but includes "asset maintenance" programs such as farm subsidies and other subsidies to people who are not in poverty.

Givel, Michael. *The War on Poverty Revisited: The Community Services Block Grant Program in the Reagan Years*. New York: University Press of America, 1991.

This book details the changes during the Reagan administration and the role of state governments in block grant programs. Givel argues that the Green amendment (P.L. 90-222: 1967) to the Community Services Block Grant (CSBG) program effectively gives state and local officials a "veto power over local agencies' policies and activities." The amendment gives one-third of the membership on local agency boards of low-income representatives; local officials were given one-third representation and the balance of local board representation is given to local appointed representatives of business, labor, civic and charitable groups. According to Givel, no CSBG program can survive that challenges the distribution of local political power, regardless of its level of effectiveness.

Levy, Seymour and Charles A. Linster. *The Federal Block Grant Experience*. Rehabilitation Services Administration, U.S. Department of Education, Chicago, Illinois, 1981.

Although dated, this publication provides a good analysis of block grant programs in the areas of Law Enforcement Assistance Administration (LEAA), Comprehensive Employment and Training Administration (CETA), Community Development Block Grants (CDBG), and Title XX (1974 Social Security Amendments). This report is consistent with the body of research that followed. Among the problems (p. 47) cited in the block grant experience are: (1) malapportionment of legislatures, (2) debt management conflicts, (3) restrictive laws governing cities, (4) state failure to give attention to urban problems. Technical and programmatic issues are also discussed.

Office of Management and Budget. *Budget of the United States Government: Analytical Perspectives, Fiscal Year 1995*. Washington, D.C.: Government Printing Office, 1994.

Tables in Chapter 11 (pp. 167-175) provide an overview of all federal grants to state and local government. For a more detailed analysis see U.S. Department of Commerce, *Federal Expenditures by State for Fiscal Year 1993*, (52 pages of tables).

Pressman, Jeffrey and Aaron Wildavsky. *Implementation*. Berkeley: University of California Press, 1984.

No study of federal economic assistance to local areas would be complete without acknowledging this famous case study detailing the Economic Development Agency programs in Oakland, California.

Rich, Michael J. *Federal Policymaking and the Poor: National Goals, Local Choices, and Distributional Outcomes*. Princeton: Princeton University Press, 1993.

This book is the most comprehensive analysis of federal block grants to date. It analyzes the history of the CDBG program at the federal, state and local levels. It also addresses variations across state and local jurisdictions. *From a technical standpoint, this is arguably the best book on the subject of block grants in existence (350 pages of text, but well worth the effort) and its bibliography is one of the most extensive available on the subject of block grants.*

Watson, Douglas J., John Heilman and Robert S. Montjoy. *The Politics of Redistributing Urban Aid*. Westport, Conn.: Praeger, 1994.

This book is an in-depth analysis of the Urban Development Action Grant (UDAG) program focusing on the official standards of eligibility and targeting. It reviews HUD and GAO studies and finds persistent pressure to distribute funds broadly.

Expert Contacts

The contents of this report are the sole responsibility of the author. A variety of sources have been consulted to produce this report and its findings do not necessarily reflect the opinions of the people listed below. However, the following people have graciously offered their experience and depth of knowledge to provide additional details as needed.

Donald F. Kettl, Professor, Department of Political Science, University of Wisconsin, Madison, WI, 215 Glenn Hollow Road, Madison, WI (608) 263-2414 (on sabbatical, spring 1995: home phone (608) 233-3128, FAX (608) 233-1109). Dr. Kettl has published extensively in the areas of federalism, fiscal policy, and community development. He is available to discuss more detailed managerial issues relating to block grant programs.

Paula Lovett, Grant Program Manager, Department of Economic and Community Development, Rachel Jackson Building, 6th Floor, 320 Sixth Avenue North, Nashville, TN 37243, (615) 741-6201. Ms. Lovett works with the Department of Economic and Community Development, one of the agencies involved in administering CDBG, TIIP and ARC grants.

Lynn McCaleb-Jones, Director of Economic and Community Development, Northwest Tennessee Development District, 124 Weldon Drive, P.O. Box 63, Martin TN 38237 (901) 587-4213, FAX (901) 587-4587. Ms. McCaleb-Jones has worked in the field of community development block grants for about 15 years. She has also worked with the local planning division of the state's Department of Economic and Community Development.

Richard P. Nathan, Director, Rockefeller Institute of Government, State University of New York -Albany, Albany, New York (518) 442-5289, Dr. Nathan has done numerous studies of federal grant programs. On April 27, 1995, Dr. Nathan testified before the U.S. Senate Committee on Finance concerning block grants.

Michael J. Rich, Assistant Professor, Department of Political Science, 1555 Pierce Drive, Emory University, Atlanta, GA 30322, (404) 727-6572. Dr. Rich has done an intensive study of CDBG programs and extensive field research in the Chicago area.